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Comment on 'Can training and employment subsidies combat European unemployment?'

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Published in:
Economic Policy

Publication date:
2002

[Link to publication in Tilburg University Research Portal](#)

Citation for published version (APA):

van Ours, J. C. (2002). Comment on 'Can training and employment subsidies combat European unemployment?'. *Economic Policy*, 35, 443-445.

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of the potential of well-targeted and well-implemented training programmes survives more intense evaluation efforts remains to be seen, as European labour market programmes by and large are still awaiting the confrontation with experimental study designs.

Can training and employment subsidies combat European unemployment? We think they can, but important caveats apply. First, any programme must be well targeted, and particularly the incentive structure of wage subsidy schemes must be well implemented. Second, the programme must not be connected to renewal of benefit receipt eligibility. Third, even if this is adhered to, one can only expect modest effects, especially if a cost–benefit analysis is conducted. A clear conception *ex ante* of what benefits would be worth which costs is imperative.

Large macroeconomic effects require treatment effects for participants to be substantial. Since individual-level effects seem to be small at best, ALMP can only be one ingredient in a set of possible policy measures aimed at labour market reform. To fulfil even this limited function, their implementation must be pursued with utmost care. As it is set up now, ALMP in Europe threatens to remain solely a device for showing political activism. An improved data collection, an inclusion of academic researchers from programme implementation to evaluation, and an opportunity to communicate expectations and results between policy makers and evaluators would go a long way in shaping a European evaluation culture.

Discussion

Jan C. van Ours

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Unemployment is still a major problem in many European countries and a lot of money is spent to get the unemployed back to work. Therefore, investigating the effectiveness of active labour market policies (ALMP) is very important. Jochen Kluge and Christoph Schmidt give a thorough discussion of a lot of issues involved in evaluating the effects of ALMP. They present a clear overview of empirical evaluation studies, which they use to perform an interesting empirical analysis in which every study is one data point. Finally, their call for additional research based on newly collected data is appealing. Since I basically agree with most of their arguments I will restrict my comments to three elements in the presentation where I have a slightly different opinion or where the authors could have expanded their argumentation a bit. The three comments concern the role of benefit sanctions, the importance of macroeconomic research and the plea for more evaluation by academic researchers.

An important difference between the US and Europe is that in the US financial incentives for unemployed workers to search actively for a job are stronger than in Europe. Therefore, I think that the authors could have given more attention to ‘sticks’

and not just to 'carrots'. Monitoring search effort of unemployed workers and subsequently imposing benefit sanctions if they fail to meet certain requirements may be an efficient way to bring the unemployed back to work. A system of monitoring and benefit sanctions does not have to be very expensive, since monitoring has to be done anyway. The authors remark that 'in practice the sanctioning elements receive relatively little attention'. I'm not sure about this since in a number of countries there have been studies on benefit sanctions showing that they are very efficient.

The authors stress at various places in the paper that it is important to take the macroeconomic effects into account. Micro-econometric research can only partly answer the relevant policy questions. It can study the effectiveness from the perspective of the individual but not macroeconomic effects such as crowding out, substitution and displacement. The authors state that success at the level of the individual is a necessary ingredient for an overall positive effect of active labour market programmes and that, since a programme that is not effective on the micro level will never be so on the macro level, it is justified to focus on empirical literature on the microeconomic level.

If I were a policy-maker, that approach would not make me too happy. The line of reasoning is that even though positive effects for individual participants may not be a sufficient condition for overall success, they are a necessary one. True as this may be in a lot of cases, it is not true for all programmes. One can easily imagine a programme that is very successful from the individual point of view and completely unsuccessful from a policy point of view. Take for example a programme of monitoring and benefit sanctions. There are two types of effects related to such a programme. The first effect is caused by the imposition of a benefit sanction. Unemployed workers that are confronted with a reduction of their benefits will search harder for a job and thus reduce their unemployment duration. The second effect has to do with the presence of the programme. Even before an individual is confronted with a benefit sanction he or she may search harder to avoid being punished. It is easy to imagine that the second effect is more important than the first. Comparing workers with and without benefit sanctions may reveal that the effect of a sanction is small, because the main effect is that every unemployed worker searches harder because of the threat of getting a sanction imposed. Or, in other words, from a micro perspective it is as if the programme has no effect while from a macro perspective it is highly effective. Therefore, I think the macroeconomic consequences of ALMP should be high on the research agenda as well. As Heckman *et al.* (1999) put it: 'The microeconomic treatment effect literature ignores the effects of programs on the interactions among agents . . . The lessons from the treatment effect literature that ignores social interactions can be quite misleading. The challenge in estimating these general equilibrium effects is the challenge of estimating credible general equilibrium models. However, unless the challenge is met, or the social interactions are documented to be unimportant, the output of micro treatment effect evaluations will provide poor guides to public policy.'

An important recommendation is that academic researchers instead of 'in-house' evaluators or consulting firms should do more evaluation studies. I very much agree with this conclusion. Independent evaluation of new policy initiatives (whether or not they refer to the labour market) should be obligatory in every country. However, the plea for more evaluation studies could have been more convincing. An important question is why policy-makers in Europe are reluctant to use independent researchers to do the evaluation. My guess is that policy-makers have a different methodology to measure the effectiveness of their policy. They look at input. For a politician it may be more important to claim the spending of €100 million on a new policy initiative as a success rather than to really investigate whether this new initiative made any sense. Also, politicians may be mostly interested in reducing open unemployment quickly rather than in long-term effects of policy programmes. Information from the US might have been helpful here. In the US there was a shift from non-experimental to experimental studies. This shift occurred because researchers found the results from non-experimental evaluations in the 1960s and 1970s too widespread. It would have been interesting if the authors had given some illustration of the usefulness of American policy evaluations. That might persuade European policy-makers to think along similar lines as their American colleagues.

All in all, I like the paper very much. I agree with most of the statements and recommendations in the paper, and I am sure it will be useful for both researchers and policy-makers.

Hylke Vandenbussche

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This is a very relevant paper from an economic policy point of view. It offers a very exhaustive literature review of the effects of active labour market policies (ALMP) in the EU compared to the US. One of the important differences the authors see is that in the EU much more money is spent on ALMP, while at the same time much less effort goes into the design of ALMP and the evaluation of these programmes than in the US.

The authors clearly explain the methodologies that can be used nowadays to evaluate active labour market policies (training, wage subsidies, provision of jobs) which are much more systematic and rigorous than what has been going on in Europe so far. Both existing econometric techniques and the design of social experiments are explained at length. The authors argue in favour of social experiments and support their arguments in favour of this methodology by referring to the long US experience in this area that has been positive.

The experience in the US in terms of measurement and evaluation of ALMP, however, has also revealed that despite a good methodological setup, active labour market programmes do not always yield the desired effect. The return on investment of public sector money in this area, on the evidence that is available, turns out to be poor. In light of Europe's large expenditures on ALMP the discussion of the effectiveness of these programmes, based on US studies, is quite sobering for policy-makers.